

Did the New Deal Work?

As talk of a "new New Deal" grows, the debate about the original lives on.

By Matthew Bandyk April 11, 2008, at 11:58 a.m.

While today's economic slowdown pales in comparison to the Great Depression, when it comes to political action, the ghost of the 1930s may still be haunting Washington, D.C. President Franklin Roosevelt explained the need for the New Deal this way in his 1932 address to the Democratic National Convention: "While [Republicans] prate of economic laws, men and women are starving. We must lay hold of the fact that economic laws are not made by nature. They are made by human beings."

That's not so different from the sentiment behind modern-day calls for action, like Rep. Barney Frank's plan to bail out homeowners. When the market takes a wrong turn, it's the job of government to grab the wheel—by boosting spending or cutting taxes—and steer the economy back on the right path.

But if there's anything more unpredictable than the direction of the market, it's the effects of government tinkering with economic policy. And even today, economists and historians still vigorously debate not only whether or not the New Deal helped take the country out of the Depression but if it actually made things worse.

A split

Just how divided are experts? In 1995, economist Robert Whaples of Wake Forest University published a survey of academic economists that asked them if they agreed with the statement, "Taken as a whole, government policies of the New Deal served to lengthen and deepen the Great Depression." Fifty-one percent disagreed, and 49 percent agreed. Whaples today says that the New Deal remains a thorny issue for economists because it's so difficult to measure the effects it had on the country. "You need a credible model of the economy, and not everyone is going to agree on what that model should be," he says.

Yet most economists, including defenders of the New Deal, do agree that Roosevelt's policies were far from perfect. The National Industrial Recovery Act of 1933, in particular, gets a lot of blame. It created the National Recovery Administration, a federal bureaucracy that limited competition in various industries by setting prices and wages above market levels. The ensuing upward pressure on the price of goods and unemployment may have turned a bad situation worse. While it benefited some producers, the NRA's policies meant basic goods were more expensive for consumers and jobs harder to come by for people who were already in dire straits.

But the law was struck down by the Supreme Court in 1935, so some argue it did not last long enough to create severe damage. "The NIRA might not have been a good idea," says Eric Rauchway, historian at the University of California-Davis, "but it was not exerting enough of a drag to prevent a rapid rate of recovery. If you look at the economic performance of the 1930s, you see a rapid upward trend."

Fears of confiscation

Just how rapid that trend was, though, depends on whom you ask. Except for a downturn in 1938 (historians still debate its origin), the economy and unemployment did improve after the onset of the New Deal. The country's real gross domestic product fell from \$865 billion in 1929 to \$635 billion in 1933 but rebounded to \$1 trillion by 1940.

The only hiccup was a decline from \$911 billion in 1937 to \$879 billion in 1938. But the percentage of jobless Americans remained in the double digits until the onset of World War II. In 1930, unemployment was at 8.7 percent, and it climbed to 24 percent in 1932 before declining to 15 percent by 1940. Jim Powell, author of *FDR's Folly: How Roosevelt and His New Deal Prolonged the Great Depression*, asks, "There was expansion, but how come you still had average unemployment of 17 percent from 1933 to 1940?"

One explanation is that in addition to the harm done by the restrictions imposed by the NRA, the "soak the rich" rhetoric coming from the Roosevelt administration had a chilling effect on economic growth by making people fear for their property rights. Who knows, maybe Uncle Sam would just start wholesale confiscation of the fortunes of America's wealthy or the nationalization of industries—Americans were already observing that going on across the pond with the rise of communism in Russia and fascism in Europe. This uncertainty, along with a jump in the top federal income tax rate from 25 percent in 1931 to 79 percent in 1936, may have deterred investment.

Whaples also points to the 1938 election, in which Democrats lost 72 seats in the House. While the Democrats retained majorities, these losses made it harder to pass their agenda and thus reduced the specter of "soak the rich" policies. "Investment almost immediately went up very strongly after [that election], now that people weren't as worried about the New Dealers and threats to their property," Whaples says.

Relief projects

Among other important New Deal measures were the relief projects, which came in the form of the Homeowners Loan Corp., which tried to reduce foreclosures by lowering mortgages (sound familiar?), and massive public-works projects intended to stimulate the economy by putting people to work. "Recovery was just one piece of the New Deal," Rauchway says. "Relief was another piece, and by all accounts it worked pretty well. It kept people from starving." He also notes that a decline in the relief programs was correlated with the downturn in 1938.

But Powell argues that these relief policies actually put a greater burden on the backs of the poorest in society, the opposite of what they intended. The income tax was not nearly as important then as it was today, so excise taxes on goods predominantly purchased by middle- and lower-class people were the main funding sources for these programs. "If you're just taking [money] from other middle- and low-income people, it's kind of a wash," Powell says. The federal government collected \$11.2 billion in revenue from excise taxes on goods like beer, wine, cigarettes, and soft drinks, while the most important work agency, the Works Progress Administration, spent \$6.2 billion throughout the New Deal.

FDR's Three R's: Relief, Recovery, Reform

Goals:

Relief:

- To immediately relieve the panicking & stress of the Great Depression
- To assist distressed people through direct monetary payments and/or loans
- Mostly temporary
- Created jobs to curb unemployment (ex. CCC)

Recovery:

- To aid farmers, business owners, and workers-especially in industries troubled most in the 1920s (ex. Construction)
- To get the economy moving again & lift the country out of depression
- To not only improve present economic conditions in the country by providing work, but also through production of public works that make a lasting impact on America (ex. Parks, schools, roads, dams, etc.)
- Solve overproduction and under-consumption

Reform:

- To eliminate abuse in the economy
- To prevent future depressions
- To protect ALL Americans-investors, consumers, etc. in the future
- To fix structural problems with the economy that caused the Great Depression

New Deal Programs

EMPLOYMENT PROJECTS

- 1933 Civilian Conservation Corps (CCC)
- 1933 Federal Emergency Relief Administration (FERA)
- 1933 Public Works Administration (PWA)
- 1933 Civil Works Administration (CWA)
- 1935 Works Progress Administration (WPA)
- 1935 National Youth Administration (NYA)

PURPOSE

Provided jobs for single males on conservation projects.

Helped states to provide aid for the unemployed.

Created jobs on government projects.

Provided work in federal jobs.

Quickly created as many jobs as possible—from construction jobs to positions in symphony orchestras.

Provided job training for unemployed young people and part-time jobs for needy students.



BUSINESS ASSISTANCE AND REFORM

- 1933 Emergency Banking Relief Act (EBRA)
- 1933 Federal Deposit Insurance Corporation (FDIC)
- 1933 National Recovery Administration (NRA)
- 1934 Securities and Exchange Commission (SEC)
- 1935 Banking Act of 1935
- 1938 Food, Drug and Cosmetic Act (FDC)

Banks were inspected by Treasury Department and those stable could reopen.

Protected bank deposits up to \$5,000. (Today, accounts are protected up to \$100,000.)

Established codes of fair competition.

Supervised the stock market and eliminated dishonest practices.

Created seven-member board to regulate the nation's money supply and the interest rates on loans.

Required manufacturers to list ingredients in foods, drugs, and cosmetic products.



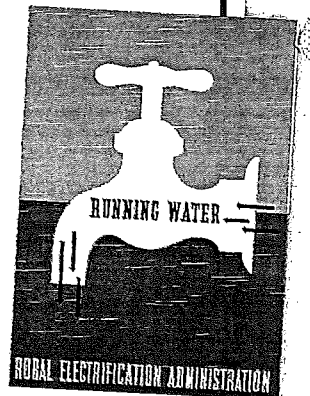
FARM RELIEF AND RURAL DEVELOPMENT

- 1933 Agricultural Adjustment Administration (AAA)
- 1933 Tennessee Valley Authority (TVA)
- 1935 Rural Electrification Administration (REA)

Aided farmers and regulated crop production.

Developed the resources of the Tennessee Valley.

Provided affordable electricity for isolated rural areas.



HOUSING

- 1933 Home Owners Loan Corporation (HOLC)
- 1934 Federal Housing Administration (FHA)
- 1937 United States Housing Authority (USHA)

Loaned money at low interest to homeowners who could not meet mortgage payments.

Insured loans for building and repairing homes.

Provided federal loans for low-cost public housing.

LABOR RELATIONS

- 1935 National Labor Relations Board (Wagner Act)
- 1938 Fair Labor Standards Act

Defined unfair labor practices and established the National Labor Relations Board (NLRB) to settle disputes between employers and employees.

Established a minimum hourly wage and a maximum number of hours in the workweek for the entire country.

Set rules for the employment of workers under 16 and banned hazardous factory work for those under 18.

RETIREMENT

- 1935 Social Security Administration

Provided a pension for retired workers and their spouses and aided people with disabilities.

THE SOCIAL SECURITY ACT One of the most important achievements of the New Deal was creating the Social Security system. The **Social Security Act**, passed in 1935, was created by a committee chaired by Secretary of Labor Frances Perkins. The act had three major parts:

- *Old-age insurance for retirees 65 or older and their spouses.* The insurance was a supplemental retirement plan. Half of the funds came from the worker and half from the employer. Although some groups were excluded from the system, it helped to make retirement comfortable for millions of people.
- *Unemployment compensation system.* The unemployment system was funded by a federal tax on employers. It was administered at the state level. The initial payments ranged from \$15 to \$18 per week.
- *Aid to families with dependent children and the disabled.* The aid was paid for by federal funds made available to the states.

MAIN IDEA

Drawing

Conclusions

D Whom did Social Security help?

Although the Social Security Act was not a total pension system or a complete welfare system, it did provide substantial benefits to millions of Americans. D

EXPANDING AND REGULATING UTILITIES The Second New Deal also included laws to promote rural electrification and to regulate public utilities. In 1935, only 12.6 percent of American farms had electricity. Roosevelt established under executive order the Rural Electrification Administration (REA), which financed and worked with electrical cooperatives to bring electricity to isolated areas. By 1945, 48 percent of America's farms and rural homes had electricity. That figure rose to 90 percent by 1949.

The Public Utility Holding Company Act of 1935 took aim at financial corruption in the public utility industry. It outlawed the ownership of utilities by multiple holding companies—a practice known as the pyramiding of holding companies. Lobbyists for the holding companies fought the law fiercely, and it proved extremely difficult to enforce.

As the New Deal struggled to help farmers and other workers overcome the Great Depression, it assisted many different groups in the nation, including women, African Americans, and Native Americans.



ASSESSMENT

1. TERMS & NAMES For each term or name, write a sentence explaining its significance.

• Eleanor Roosevelt

• Works Progress

Administration (WPA)

• National Youth

Administration

• Wagner Act

• Social Security Act

MAIN IDEA

2. TAKING NOTES

Create a chart similar to the one below to show how groups such as farmers, the unemployed, youth, and retirees were helped by Second New Deal programs.

Second New Deal	
Group	How Helped

Which group do you think benefited the most from the Second New Deal? Explain.

CRITICAL THINKING

3. EVALUATING DECISIONS

Why might the Social Security Act be considered the most important achievement of the New Deal?

Think About:

- the types of relief needed in the 1930s
- alternatives to government assistance to the elderly, the unemployed, and the disabled
- the scope of the act

4. INTERPRETING VISUAL SOURCES

Many WPA posters were created to promote New Deal programs—in this case the Rural Electrification Administration. How does this poster's simplistic design convey the program's goal?

